



REPORT OF THE AUDITOR-GENERAL TO THE NORTH WEST PROVINCIAL LEGISLATURE AND THE COUNCIL OF THE KAGISANO-MOLOPO LOCAL MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

- I have audited the financial statements of the Kagisano-Molopo Local Municipality set out on pages XX to XX, which comprise the statement of financial position as at 30 June 2014, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information with actual information for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

- The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP), the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2013 (Act No. 2 of 2013) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

- My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
- An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
- I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified opinion

Expenditure

6. During 2013, I was unable to obtain sufficient appropriate audit evidence for general expenses and to confirm this expenditure by alternative means. Consequently, I was unable to determine whether any adjustment to general expenses of R38 196 528 was necessary. My audit opinion on the financial statements for the period ended 30 June 2013 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

Employee cost

7. During 2013, I was unable to obtain sufficient appropriate audit evidence for a difference of R4 733 259 between the payroll reports and the financial statements. Consequently, I was unable to determine whether any adjustment to employee cost of R19 478 118 was necessary. My audit opinion on the financial statements for the period ended 30 June 2013 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

Trade and other receivables

8. During 2013, I was unable to obtain sufficient appropriate audit evidence for impairment of receivables from non-exchange transactions. Consequently, I was unable to determine whether any adjustment to receivables from non-exchange transactions of R9 849 629 was necessary. My audit opinion on the financial statements for the period ended 30 June 2013 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

Property, plant and equipment

9. I was unable to obtain sufficient appropriate audit evidence for the unit rates used in the calculation of the deemed cost of land, buildings, infrastructure assets and community assets of R241 334 845 or a difference of R12 955 762 between the asset register and the financial statements. I was unable to confirm the infrastructure assets by alternative means. In addition, infrastructure assets was understated by R16 979 851 as the municipality did not recognize all roads of the municipality. Consequently, I was unable to determine whether any further adjustments relating to property, plant and equipment of R254 994 210 (2013: R231 548 780) in the financial statements was necessary.

Investment property

10. I was unable to obtain sufficient appropriate audit evidence for investment property as the information and explanations considered necessary for the valuation of these properties was not available. I was unable to confirm the value of these investment properties by alternative means. Consequently, I was unable to determine whether any adjustment to investment property of R70 754 373 (2013: R70 754 373) in the financial statements was necessary.

Accumulated surplus

11. I was unable to obtain sufficient appropriate audit evidence that the limitations placed on my audit in the prior year relating to expenditure have been resolved. I was unable to confirm these limitations by alternative means. Consequently I was unable to determine whether any adjustments relating to accumulated surplus of R343 094 217 (2013: R318 965 898) disclosed in the statement of changes in net assets was necessary.

Cash flow statement

12. I was unable to obtain sufficient appropriate audit evidence to determine whether the cash flow statement is fairly stated. I was unable to confirm the cash flow statement by alternative



means. Taking into account the misstatements identified in the financial statements and set out in this report, I was unable to practicably quantify the misstatements in the cash flow statement and notes thereto. Consequently, I was unable to determine whether any adjustments to the cash flow statement and notes thereto were necessary.

Qualified opinion

13. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Kagisano-Molopo Local Municipality as at 30 June 2014 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA and the DoRA.

Emphasis of matters

14. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unauthorised, irregular and fruitless and wasteful expenditure

15. As disclosed in note 29 to the financial statements, unauthorised expenditure of R12 953 360 was incurred in the current year and the unauthorised expenditure from prior years of R13 311 660 had not yet been dealt with in accordance with section 32 of the MFMA.
16. As disclosed in note 29 to the financial statements, irregular expenditure of R21 557 424 was incurred in the current year and irregular expenditure from prior years of R66 114 323 had not yet been dealt with in accordance with section 32 of the MFMA.
17. As disclosed in note 29 to the financial statements, fruitless and wasteful expenditure of R350 299 was incurred in the current year and fruitless and wasteful from prior years of R949 690 had not yet been dealt with in accordance with section 32 of the MFMA.

Restatement of corresponding figures

18. As disclosed in note 28 to the financial statements, the corresponding figures for 2013 have been restated as a result of errors discovered during 2014 in the financial statements of the Kagisano-Molopo Local Municipality at, and for the year ended, 30 June 2013.

Additional matters

19. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited disclosure notes

20. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Unaudited supplementary schedules

21. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULARITY REQUIREMENTS

22. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for the selected development priorities presented in the annual performance report, non-compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express



assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

23. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development priorities presented in the annual performance report of the Kagisano-Molopo Local Municipality for the year ended 30 June 2014:
 - Development priorities A and B: Basic service delivery and infrastructure development on pages XX to XX
 - Development priority C: Local economic development on pages XX to XX
24. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
25. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned development. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for managing programme performance information (FMPPI).
26. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
27. The material findings in respect of the selected development priorities are as follows:

Development priorities A and B: Basic service delivery and infrastructure development

Usefulness of reported performance information

28. The FMPPI requires that indicators be well defined and targets be specific and measureable:
 - A total of 22% of the indicators were not well defined.
 - The required performance for 22% of the targets could not be measured.
 - A total of 22% of the indicators were not specific.

This was because management did not adhere to the requirements of the FMPPI when defining some of the indicators.

Reliability of reported performance information

29. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Significantly important targets were not reliable when compared to the source information or evidence provided. This was due to a lack of proper indicator descriptions for the accurate measurement, recording and monitoring of performance.

Development priority C: Local economic development

Usefulness of reported performance information

30. The FMPPI requires that performance indicators must be well defined by having clear data definitions so that data can be collected consistently and is easy to understand and use. A total of 35% of the indicators were not well defined. This was because management did not adhere to the requirements of the FMPPI due to a lack of proper systems and processes.



Reliability of reported performance information

31. The FMSSI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Significantly important targets were not reliable when compared to the source information or evidence provided. This was due to a lack of proper indicator descriptions for the accurate measurement, recording and monitoring of performance.

Additional matter

32. I draw attention to the following matter:

Achievement of planned targets

33. Refer to the annual performance report on pages XX to XX for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information for the selected development priorities reported in paragraphs 28 to 31 of this report.

Compliance with legislation

34. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Annual financial statements and annual reports

35. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements to revenue, expenditure, property, plant and equipment, trade and other receivables, trade and other payables, contingent liabilities, provisions and disclosures identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.
36. The 2009/10, 2010/11, 2011/2012 and 2012/2013 annual reports were not tabled in the municipal council within seven months after the end of the financial year, as required by section 127(2) of the MFMA.
37. A written explanation was not submitted to council setting out the reasons for the delay in the tabling of the 2009/10, 2010/11, 2011/2012 and 2012/2013 annual reports in the council, as required by section 127(3) and 133(1)(a) of the MFMA.

Audit committee

38. The audit committee did not respond to the council on the issues raised in the audit reports of the auditor-general, as required by section 166(2)(c) of the MFMA.

Human resource management and compensation

39. An acting chief financial officer was appointed for a period of more than three months without the approval by the MEC for local government in contravention of section 56(1)(c) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).
40. The municipality did not submit a report on compliance with prescribed competency levels to the National Treasury and relevant provincial treasury as required by regulation 14(2)(a) of the Regulations on Minimum Competency Levels.



41. The annual report of the municipality did not reflect information on compliance with prescribed minimum competencies as required by regulation 14(2)(b) of the Regulations on Minimum Competency Levels.

Expenditure management

42. Reasonable steps were not taken to prevent unauthorised, irregular and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Procurement and contract management

43. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by regulations 17(a) and (c) of the Supply Chain Management (SCM) regulations.
44. Contracts and quotations were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of Preferential Procurement Policy Framework Act.
45. Quotations were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by regulation 13(c) of the SCM regulations.
46. Construction projects were not always registered with the Construction Industry Development Board (CIDB), as required by section 22 of the CIDB Act and regulation 18 of the CIDB regulations.
47. Contracts were extended and modified without tabling the reasons for the proposed amendment in the council of the municipality, as required by section 116(3) of the MFMA.
48. Contracts were extended or modified without the approval of a properly delegated official, as required by regulation 5 of the SCM regulations.
49. Awards were made to providers who are in the service of other state institutions or whose directors or principal shareholders are in the service of other state institutions, in contravention of section 112(j) of the MFMA and regulation 44 of the SCM regulations. Similar awards were identified in the prior year and no effective steps were taken to prevent or combat the abuse of the SCM process in accordance with regulation 38(1) of the SCM regulations.
50. A list of accredited prospective providers was not in place for procuring goods and services through quotations as required by regulation 14(1)(a) of the SCM regulations.

Revenue management

51. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

Asset management

52. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.
53. An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) of the MFMA.

Consequences management

54. Unauthorised, irregular as well as fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, in accordance with the requirements of section 32(2) of the MFMA.



Budget

55. Expenditure was not incurred in accordance with the approved budget, in contravention of section 15 of the MFMA.

Strategic planning and performance management

56. The annual performance report for the year under review did not include the performance of the municipality and each external service provider.

57. The performance management system and related controls were inadequate as it did not describe and represent the processes of performance review and reporting and how it is conducted, organised and managed, as required by sections 38 of the MSA and regulation 7 of the municipal planning and performance management regulations.

Waste management

58. The municipality operated its waste disposal sites and wastewater treatment facility(s) without a license in contravention of section 20(b) of the National Environmental Management Waste Act, 2008 (Act No. 59 of 2008) (NEMWA), section 24(2)(a) of the National Environmental Management Act, 1998 (Act No. 107 of 1998) (NEMA) and section 22(1)(b) of the National Water Act, 1998 (Act No. 36 of 1998) (NWA).

59. The municipality's operational activities at its waste disposal sites and wastewater treatment facility(s) contravened or failed to comply with the requirements of a waste management license, section 67(1)(f) and (h) of the NEMWA and section 151(1)(c) and (i) of the NWA.

60. The municipality's waste management and disposal activities contravened or failed to comply with the requirements of section 28(1) of the NEMA, section 19 of the NWA and sections 16(1)(c) and (d) and 26(1)(b) of the NEMWA.

61. The municipality did not exercise its legislative and executive authority as required by section 11(3)(l) and (m) of the MSA by managing, monitoring and enforcing environmental related bylaws to promote a safe and healthy environment.

Internal control

62. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the findings on the annual performance report and the findings on non-compliance with legislation included in this report.

Leadership

63. Adequate oversight responsibility regarding financial and performance reporting and compliance and related internal controls is not exercised. Policies and procedures are not adequately implemented and communicated to enable and support understanding and execution of internal control objectives, processes, and responsibilities.

64. Effective human resource management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored is not implemented. The position of chief financial officer is still being filled by an acting official, and this impact negatively on the improvements required in the finances department.

Financial and performance management

65. The municipality did not implement a proper record keeping system to ensure that complete, relevant and accurate information is accessible and available to support the preparation and presentation of financial statements, performance reporting and compliance with laws and regulations. The municipality's lack of control over IT systems resulted in the whole financial



year's accounting records being lost due to a system failure. Management is encouraged to implement a proper and sufficient record keeping system as a matter of urgency.

Governance

66. Management did not implement appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risks and fraud prevention, were approved and that a risk strategy to address these risks were developed and monitored.
67. The shared audit committee service was not effective during the financial year. The recommendations made were not implemented by council.

Auditor General

Potchefstroom

30 November 2014



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